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**FISCAL IMPACT STATEMENT**

**LS 6554**

**BILL NUMBER:** SB 581

**NOTE PREPARED:** Dec 22, 2008

**BILL AMENDED:**

**SUBJECT:** Eligibility for Long Term Care Policy Deduction.

**FIRST AUTHOR:** Sen. Mishler

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a deduction from adjusted gross income for premiums paid for a policy of long-term care insurance. (Current law limits the deduction to premiums paid for a qualified long-term care policy.)

**Effective Date:** January 1, 2010.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. The DOR's existing budget and resources should be sufficient to implement these provisions.

*Medicaid Program:* To the extent that the deduction encourages purchases of long-term care (LTC) insurance that would not have occurred otherwise, there is some potential for a reduction in future Medicaid expenditures.

**Explanation of State Revenues:** *Summary* - The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers for premiums paid on LTC insurance policies that are not sold through the Indiana Long Term Care (Partnership) Insurance Program. Current statute already provides a deduction for premiums paid on "Partnership" policies. The revenue loss due to this bill could potentially range from \$2.1 M to \$8.2 M in FY 2011, and if current trends persist, the revenue loss in FY 2012 could potentially range from \$2.2 M to \$8.6 M. The revenue loss could be higher to the extent that the deduction encourages purchases of LTC insurance that would otherwise not occur. The deduction would reduce the premium cost by 3.4%.

Since the deduction is effective beginning in tax year 2010, the fiscal impact would begin in FY 2011. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

**Background** - The bill extends the current deduction for premiums paid on “Partnership” policies to premiums paid by an individual taxpayer on any LTC insurance policy. As of June 2008 there were about 35,800 “Partnership” policies in force. Assuming market penetration rates of 5% to 6%, it is estimated that there are about 86,000 to 110,000 policies in force that are not “Partnership” policies. Non-partnership policy totals for 2010 and after are extrapolated from the 2008 estimate based on recent annual growth in the number of “Partnership” policies in force equal to about 4.6%. The average premium is assumed to be \$2,000 based on survey research and the current average deduction for “Partnership” premiums.

The higher bound assumes 100% response to the tax deduction. The lower bound assumes a 33% response to the tax deduction. In 2006, the number of taxpayers claiming the deduction for “Partnership” premiums totaled roughly 10,600. Assuming one partnership policy per taxpayer, this suggests that only about 33% of “Partnership” policy holders claim the premium deduction. A similar response rate occurred in 2005. (Note: 2006 is the most recent year for which return-level data is available.)

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the expansion in the deduction for LTC insurance premiums would serve to decrease taxable income, counties imposing local option income taxes may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** DOR.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** OFMA income tax database, 2000-2006; *Fact Sheet: Selected Long-Term Care Statistics*, Family Caregiver Alliance; *Characteristics of Long-Term Care Users*, U.S. Agency for Healthcare Research and Quality, 1998; *Federal and State Initiative to Jump Start the Market for Private Long-Term Care Insurance*, The Urban Institute, 2000; Long-Term Care Insurance, AARP Public Policy Institute, June 2007. Indiana Long Term Care Insurance Program, Quarterly Statistical Reports 2000-2008; 2006 U.S. Census data.

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